

U S WEST, Inc.  
Suite 700  
1020 Nineteenth Street, NW  
Washington, DC 20036  
202 429-3133

EX PARTE OR LATE FILED

DOCKET FILE COPY ORIGINAL

**USWEST**

Glenn Brown  
Executive Director-  
Public Policy

September 25, 1996

RECEIVED

SEP 25 1996

William F. Caton, Acting Secretary  
Federal Communications Commission  
1919 M Street N.W., Room 222  
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

RE: CC Docket 96-45

Dear Mr. Caton:

On September 25, 1996 Lawrence Sarjeant and the undersigned met with Commissioner Susan Ness, and Jim Casserly, Senior Legal Advisor to Commissioner Ness, on Universal Service. The attached charts were used during this discussion.

In accordance with Commissioner Rule 1.1206(a)(1), two copies of the letter are being filed with you for inclusion in the public record. Acknowledgment and date of receipt are requested. A copy of this transmittal letter is provided for this purpose. Please contact me if you have questions.

Sincerely,



Attachments

No. of Copies rec'd  
List A B C D E

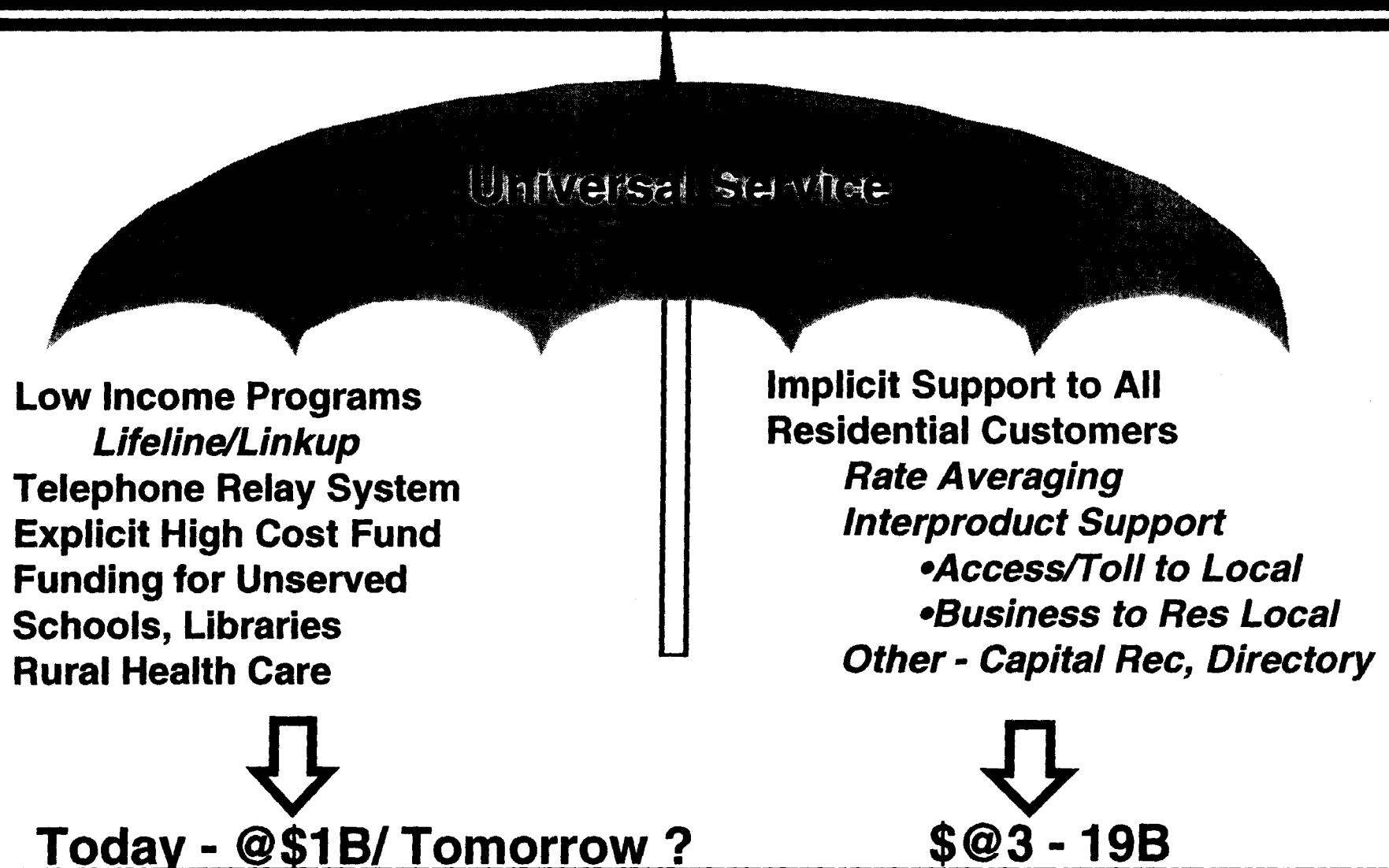
021

# UNIVERSAL SERVICE

## AGENDA

1. Impact of Interconnection Order
2. Three “whys”
  - Why Census Block Groups
  - Why Proxy Models
  - Why End User Surcharge

Glenn Brown  
Lawrence Sarjeant



***Low Income, TRS, High Cost, Unserved, Education, Rural Health Care and Implicit Support to Residential customers all come under the Universal Service Umbrella.***

## **THE RECENT INTERCONNECTION ORDER COMPLICATES THE UNIVERSAL SERVICE PROCESS**

### **1. Pricing of Unbundled Elements**

- **TELRIC**
- **“Default Proxy” Prices**
- **Hatfield Study/Fantasy Networks**

### **2. Use of Unbundled Elements**

- **Any Combination of Elements**

### **3. Joint Marketing Restrictions**

- **Joint Marketing of “Resold” Services Restricted**
- **No Restriction on Unbundled Elements**

As a result of this decision, implicit support from access and vertical services will be lost much faster than originally thought.

## **Actions Necessary to Preserve Universal Service**

1. **Rate Rebalance**
  - ✓ Pricing flexibility - Allow competitors and incumbents to compete
  - ✓ Prices more closely aligned with costs and market conditions - Residence rates must be allowed to cover costs.
2. **Properly Structure Interconnection Charges**
  - ✓ Interconnectors must pay their fair share of common, shared and universal service support costs.
3. **Target Support**
  - ✓ Low Income
  - ✓ High Cost
  - ✓ TRS
4. **Restructure Funding**
  - ✓ Make all support explicit
  - ✓ Reform existing support mechanisms where necessary
5. **Establish Transitional Universal Service Fund Until Rate Rebalancing Achieved**

## Need to Target High Cost Support to Very Small Geographic Units

- Rural Community wire center with 1,000 Lines
  - 800 Lines in Town at \$20/Mo. Average Cost
  - 200 Lines on Outlying Farms at \$200/Mo.
  - Funding Benchmark at \$30/Mo
- Universal Service Fund Calculation  
Wire Center:  
Average Cost: 800 Lines X \$20/Line = \$16,000  
200 Lines X \$200/Line = \$40,000  
Total Cost = \$56,000  
Average Cost = \$56/Line/Mo  
Universal Service Funding = \$56 - \$30 = \$26/Line/Mo

### Census Block Targeting:

Town Customers: Cost \$20/Month - No Benchmark Funding

Farm Customer: \$200 Cost - \$30 Benchmark = \$170/line

***U S WEST's Census Block Model better targets high cost funding in a competitive environment. Wire Center targeting could result in new entrants receiving \$6 more than cost for providing service in towns. Also there would be no incentive for new entrants to provide service to the \$200 outlying farm customers because they would only receive \$26 in high cost funds resulting in a \$144 support shortfall.***

## Proxy Model Evolution

- **U S WEST High Cost Model**
  - 1994
  - Distance & Density
- **Benchmark Cost Model**
  - 1995
  - U S WEST, MCI, NYNEX, Sprint
  - Multiple Cost Factors
  - Relative Cost Of Basic Service
- **Benchmark Cost Model 2**
  - 1996
  - U S WEST, Sprint
  - More Refined Cost Elements
  - Total Cost of Basic Service
- **Best Of Breed Process**
  - Combine Best Aspects
    - Benchmark Cost Model 2
    - Cost Proxy Model (PacTel)
  - Multiple Large Companies

## Improvements In BCM2 Over BCM1

- **More Accurate Rural Costs**
  - Define Populated Areas
  - Wireless Alternative Considered
- **More Accurate Urban Costs**
  - Include Missing Network Elements
  - Include Urban Cost Structures
  - More Accurate Distribution Algorithm
  - Business Lines Included
- **More Accurate Expense Calculation**
  - Investment Related
  - Line Related
- **50 States, DC, Puerto Rico, Virgin Islands, Micronesia**



## Projected Fund Size From BCM2

### Funding Benchmark

### Fund

\$20/Mo.

\$14.7B

30

7.4

40

4.3

50

2.4

60

1.3

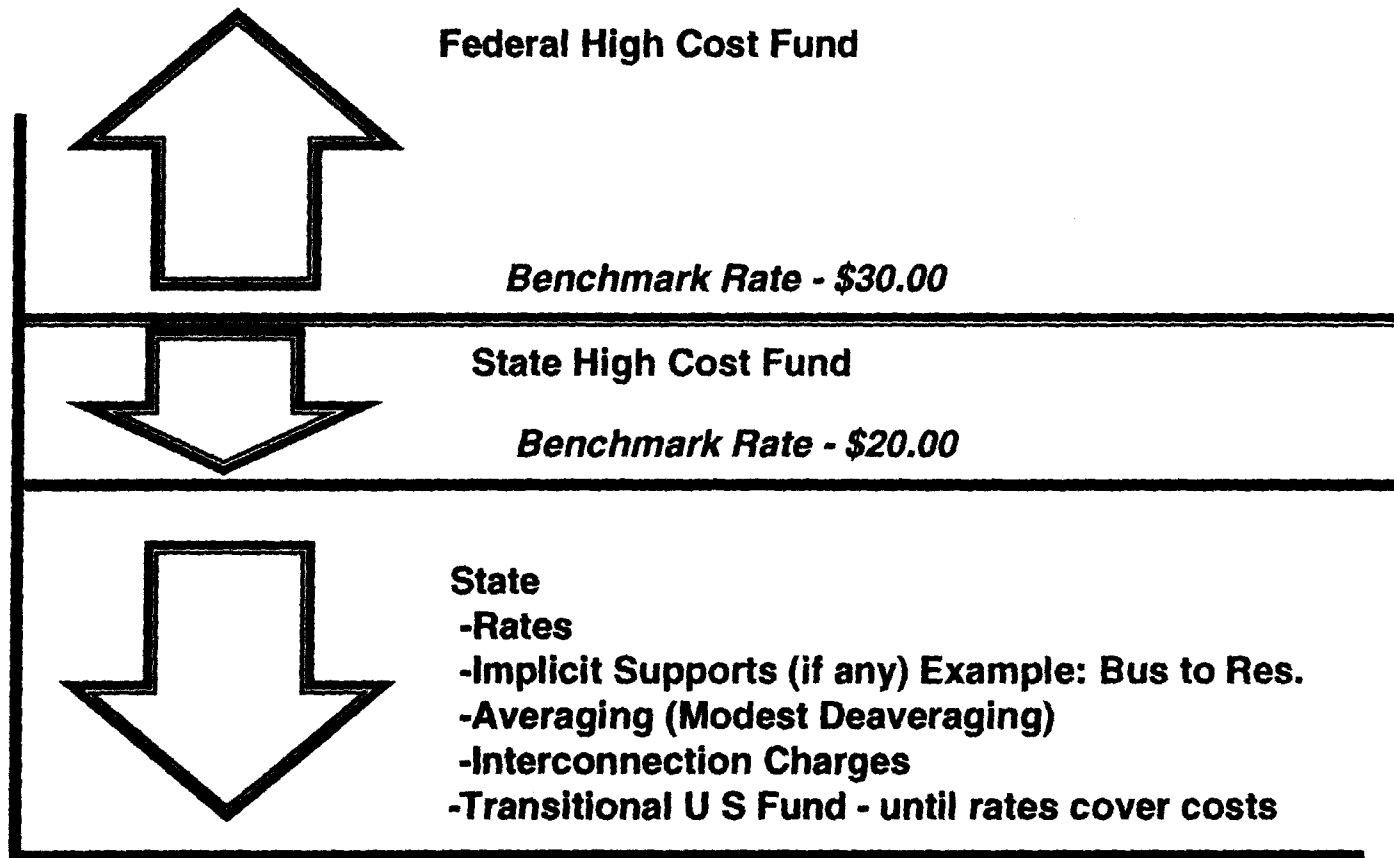
70

.8

80

.5

## Benchmark Concept



***Incumbent LECs are entitled to full recovery of costs incurred to meet historical and current universal service obligations. This recovery should be through a combination of federal and state price levels and explicit high cost funds.***

## **Funding Should Be Broadly Based**

- ✓ **Broad base will reduce disparities among competitors**
- ✓ **A USF charge should apply to services or products provided by, among others, the local exchange companies; interexchange carriers; mobile telephone and radio communications companies (including cellular, PCN, and radio common carriers); on-line services; cable companies providing telecommunications services; competitive access providers; resellers of telecommunications; telecommunications customers of private networks; etc.**

## Calculation of Surcharge Example

***\$15B Fund Size (High Cost and Education)***

**=**

***8.5% USF Charge***

***\$176.2B Total Retail Revenues***

*(Source: North American Telecommunications Association  
"Telecommunications Market Review and Forecast")*

***The broader the base the smaller the USF  
charge***

## **In Their November Decision, the Joint Board Should do the Following.**

- **Direct that all prices reflect the cost of providing services and, where this is not possible, that subsidies be explicit and targeted.**
- **Find that a proxy model is useful for targeting of support.**
- **Specify the aspects which would define an acceptable high cost targeting model.**
  - **Process for locating customers.**
  - **Outside plant design and costing principles.**
  - **Switch design and costing principles.**
  - **Standards for documenting model logic and the sources of cost data inputs.**
  - **Reasonableness tests to assure that model outputs are representative of costs that can be reasonably be expected in the construction of a network, and that the network is capable of providing service which meets service quality standards of state and federal regulators.**
- **Direct parties to submit cost models which conform the Joint Boards specifications.**